

Financing Infrastructure in Brazil: prospects and challenges

São Paulo, November 16, 2011

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President



Worldwide slowdown

Limited fiscal Instruments

Monetary Instruments

- . QE 3 (US)

- . ECB (Euro Zone)

Scenario 1: Limited worldwide growth; China at cruise speed

Favorable Trading Terms and High exchange rate

Maintenance of private credit

Stability in investments

Scenario 2: "double dip"

Unfavorable Trading Terms and Low exchange rate

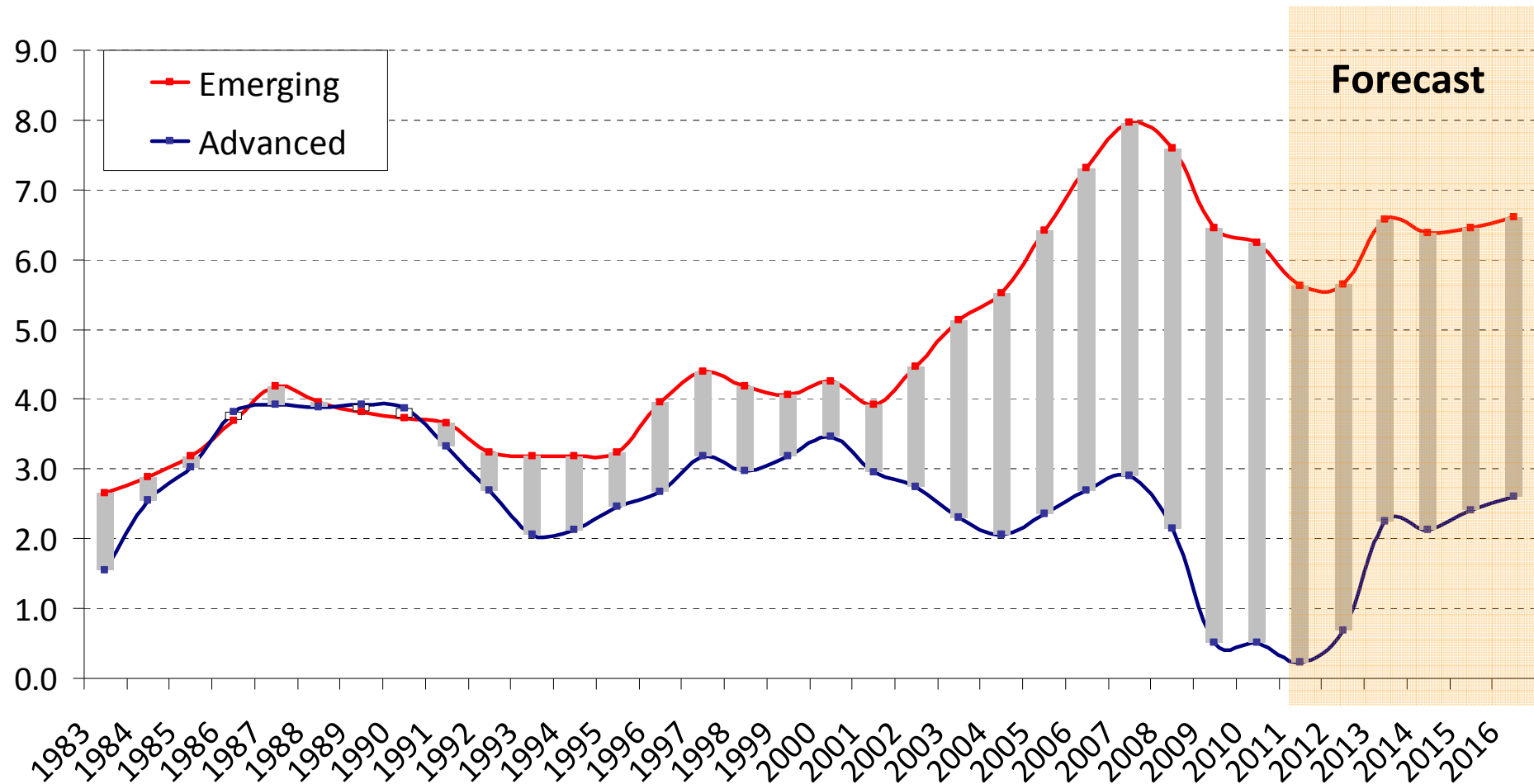
Drop in private credit

Drop in investments

Short term: emerging countries affected by the crisis Long term: solid path to growth



Real variation of GDP (moving average - 4 years)
Advanced economies vs. Emerging economies



And where is Brazil in this context?



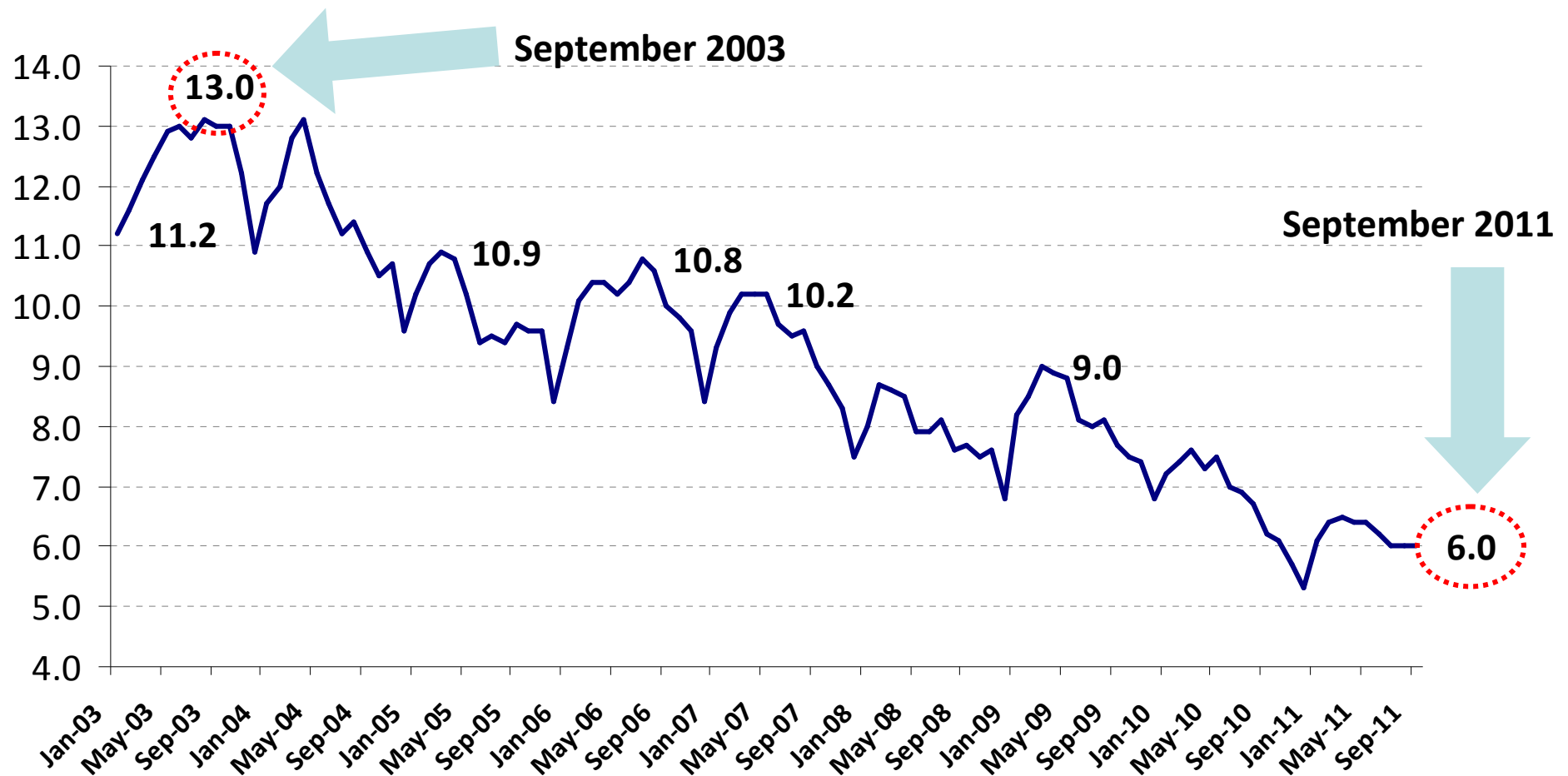
Growth is sustainable

- ✓ Social inclusion sustains dynamic domestic market;
- ✓ Robust banking system that is not exposed to problematic assets/countries;
- ✓ Investment growing above consumption;
- ✓ Several investment opportunities:
 - ✓ Oil & Gas, Infrastructure, Energy, PAC 2, Competitive sectors, 2014 World Cup, 2016 Olympic Games...
- ✓ The government is capable of a solution: fiscal and monetary instruments, as well as regulatory and financial instruments.

A strong domestic market with lower unemployment...

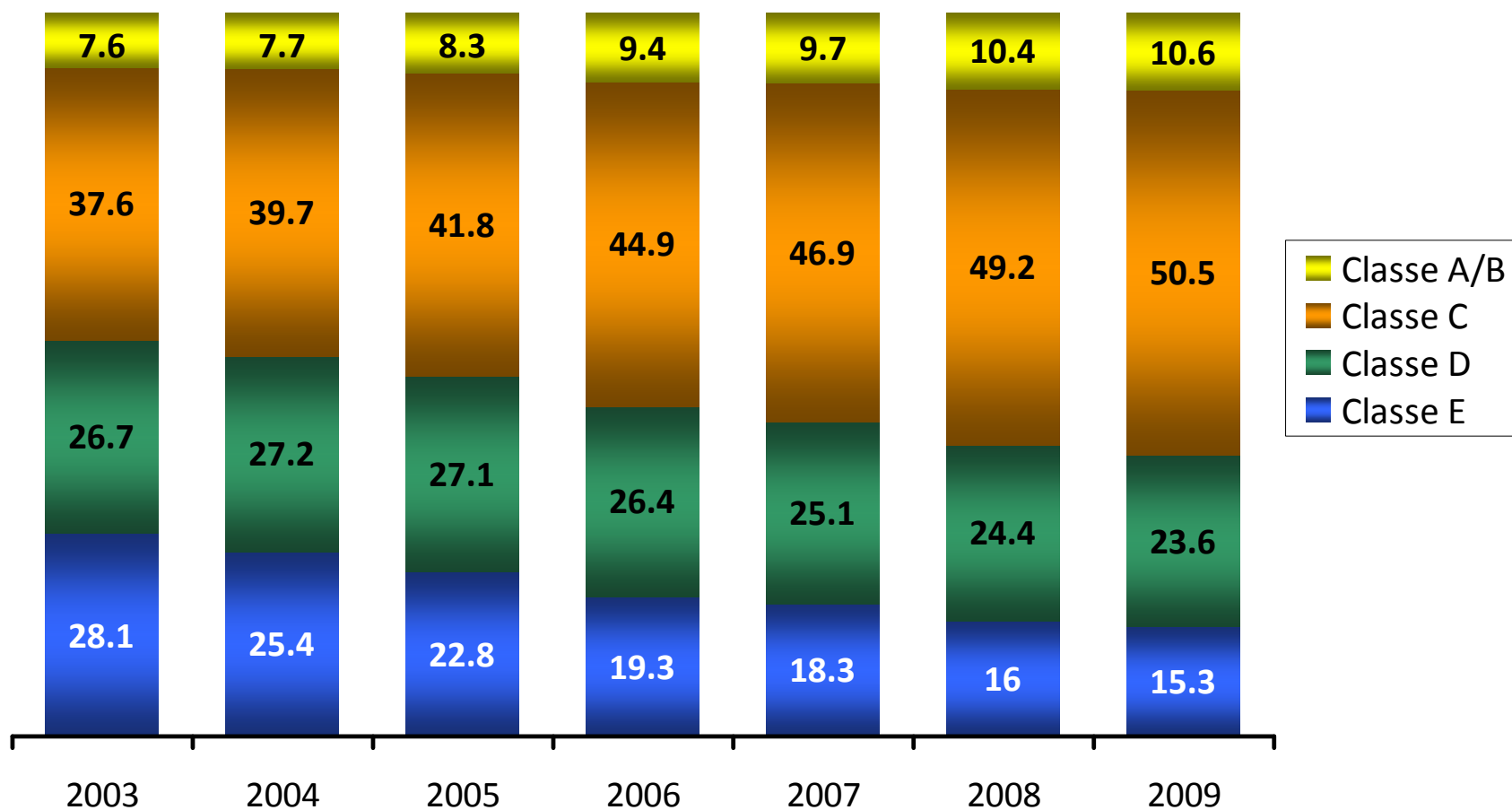


Unemployment rate (%)



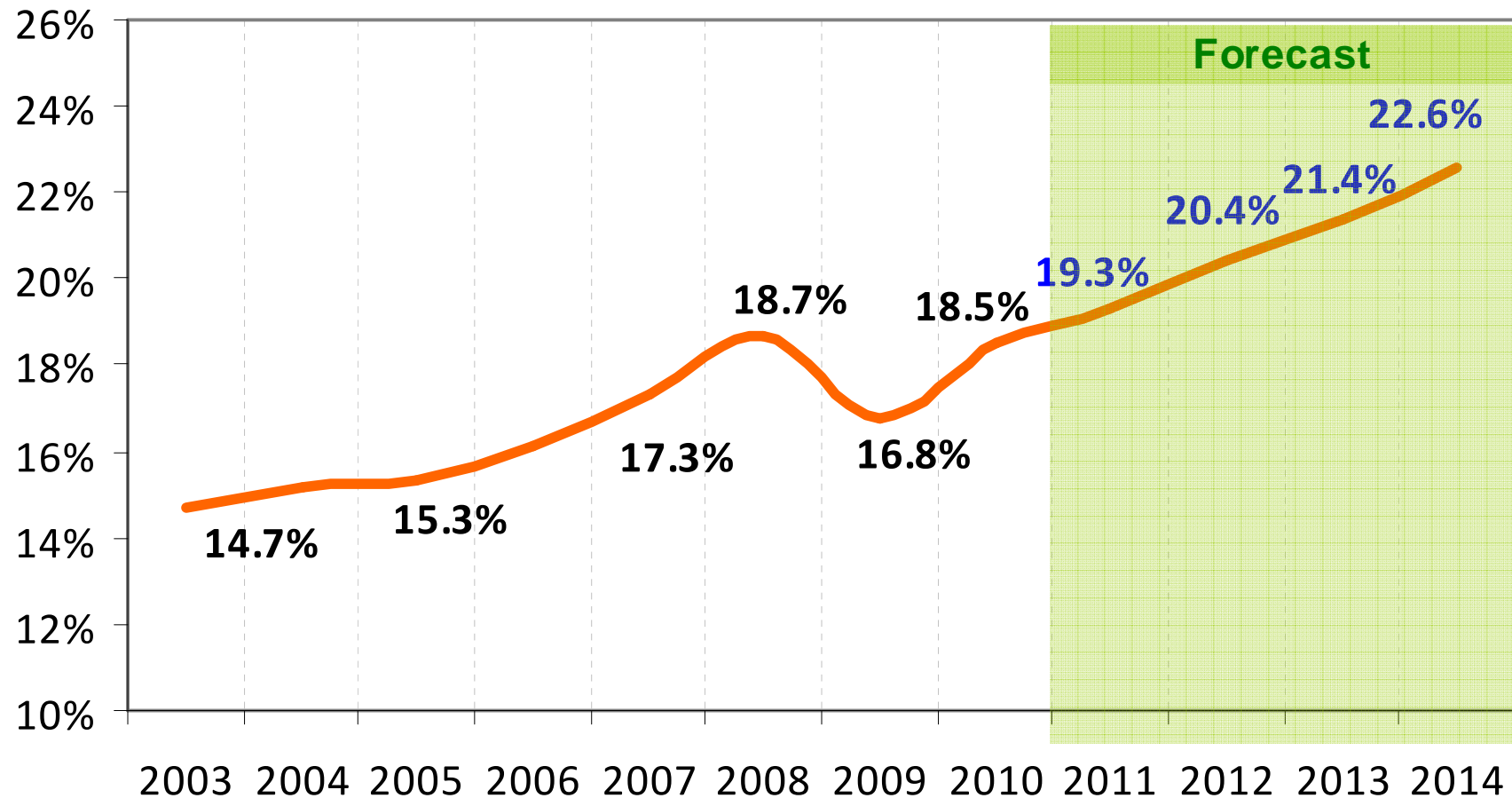
... And improved distribution of income

Population per Income Bracket (%)



Investments remain on the rise even though at a slower pace

Forecast for Rate of Investment 2010-2014 (% of GDP)



Investment perspectives: preliminary results



US\$ billion (at 2010's prices)

Sectors	Effective	Perspectives	Total growth	Annual growth
	2006-2009	2012-2015	%	% year
Industry	224	350	56.6	7.8
Infrastructure	147	224	52.7	7.3
Total	371	575	55.1	7.6

**Oil & Gas and the
Domestic Market
lead investments in
Industry**

**Electric Power leads
investments in
Infrastructure**

Some challenges must be overcome in the long term



Long-term Agenda

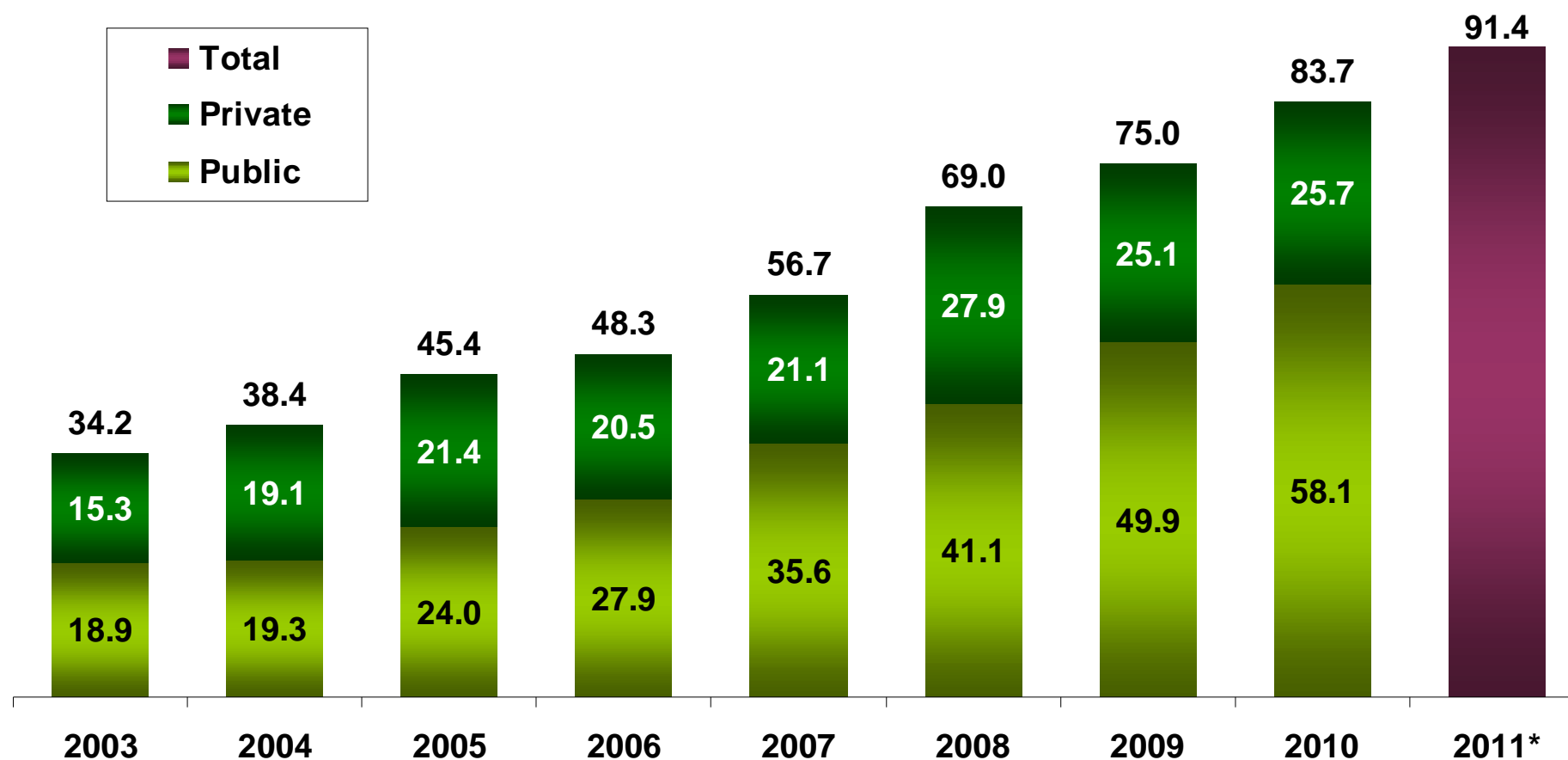
- ✓ Increase the rate of domestic savings;
- ✓ Diversify sources of long-term funding;
- ✓ Foster innovation and sustainability;
- ✓ Solid and growing investment in infrastructure;
- ✓ Training/education of the workforce to maintain significant gains in productivity;
- ✓ Improve competitiveness of Brazilian industry

Infrastructure

Investments have been growing steadily



Investments in Infrastructure (US\$ billion, 2010 prices)



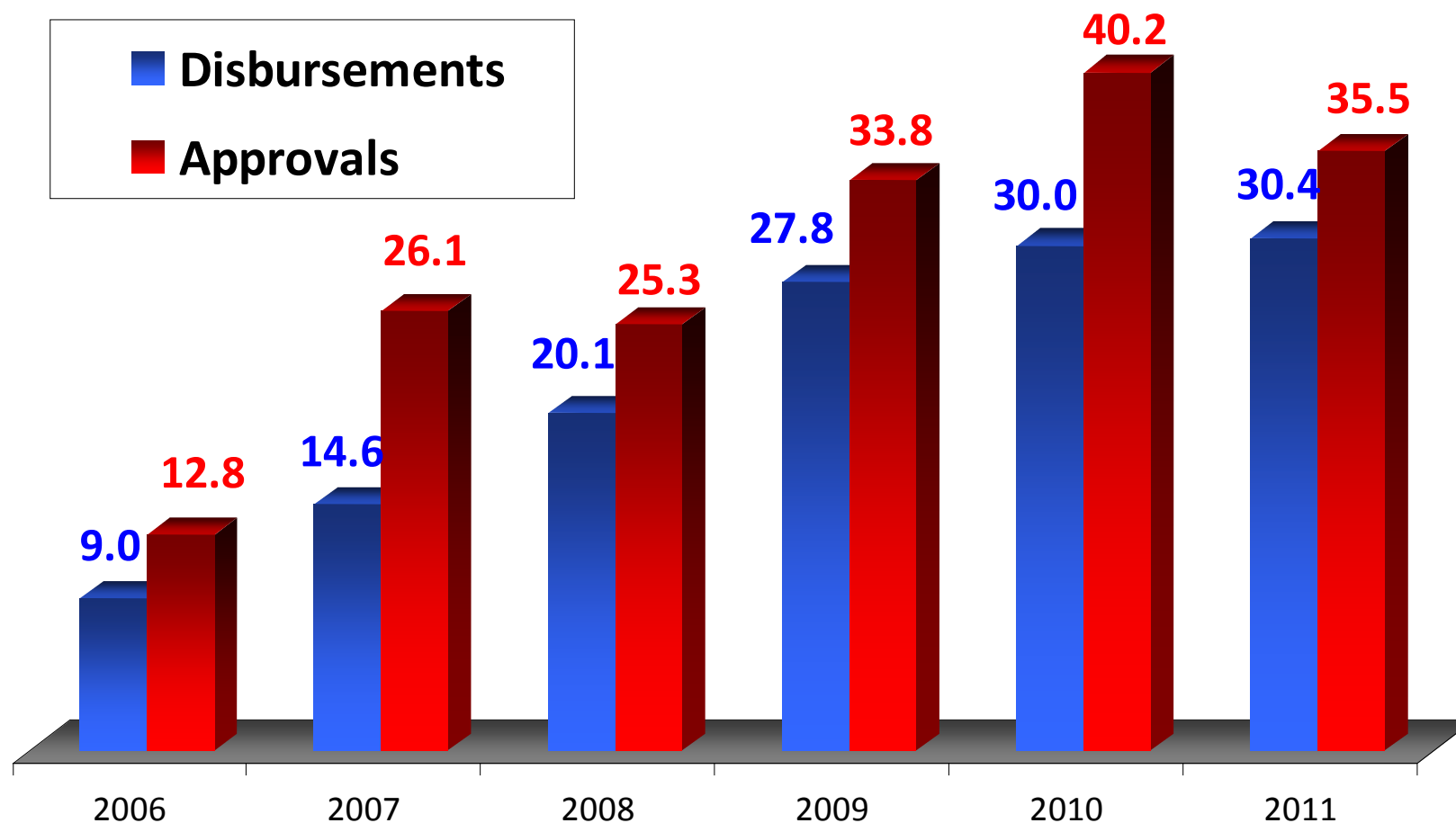
Source: Ministry of Finance (based on information from the Brazilian Association of Infrastructure and Basic Industry (ABDIB)).

ABDIB forecasts.

BNDES support for infrastructure is expanding

BNDES disbursements and approvals for Infrastructure

*Data accumulated over the last 12 months up to September 2011 (US\$ bn)



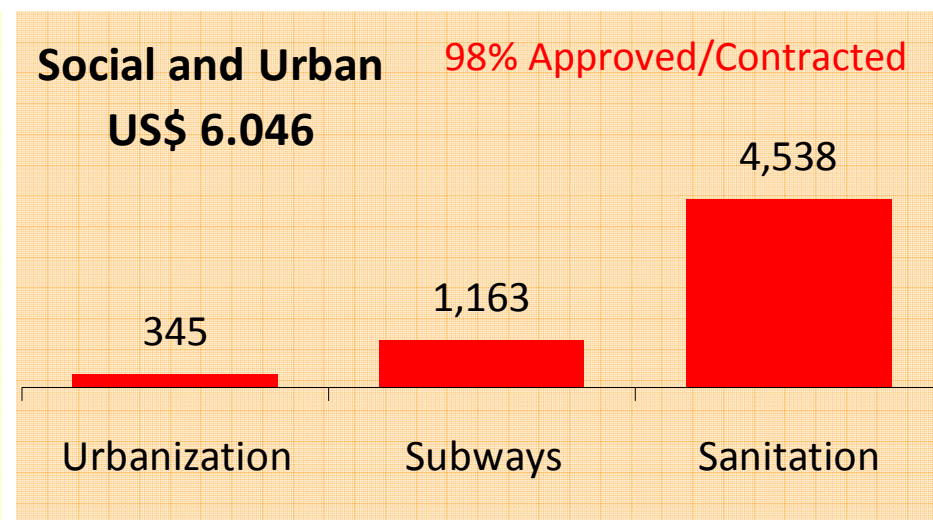
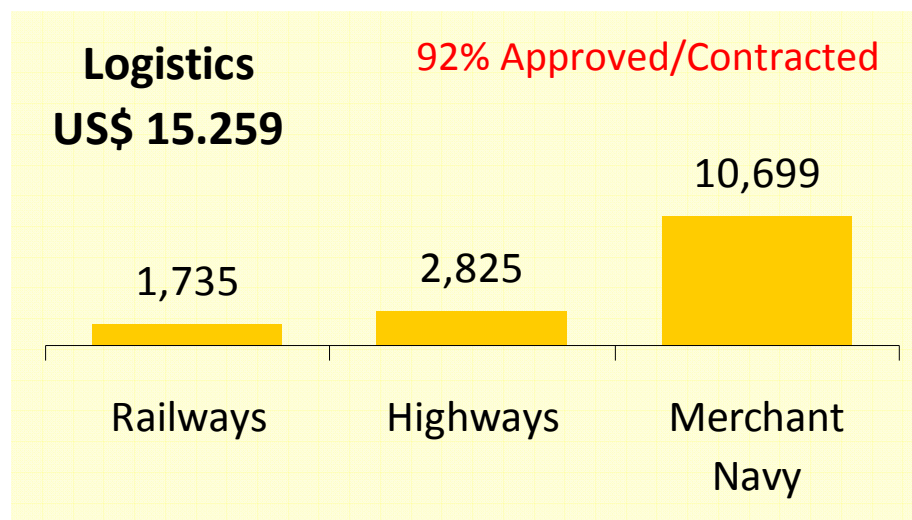
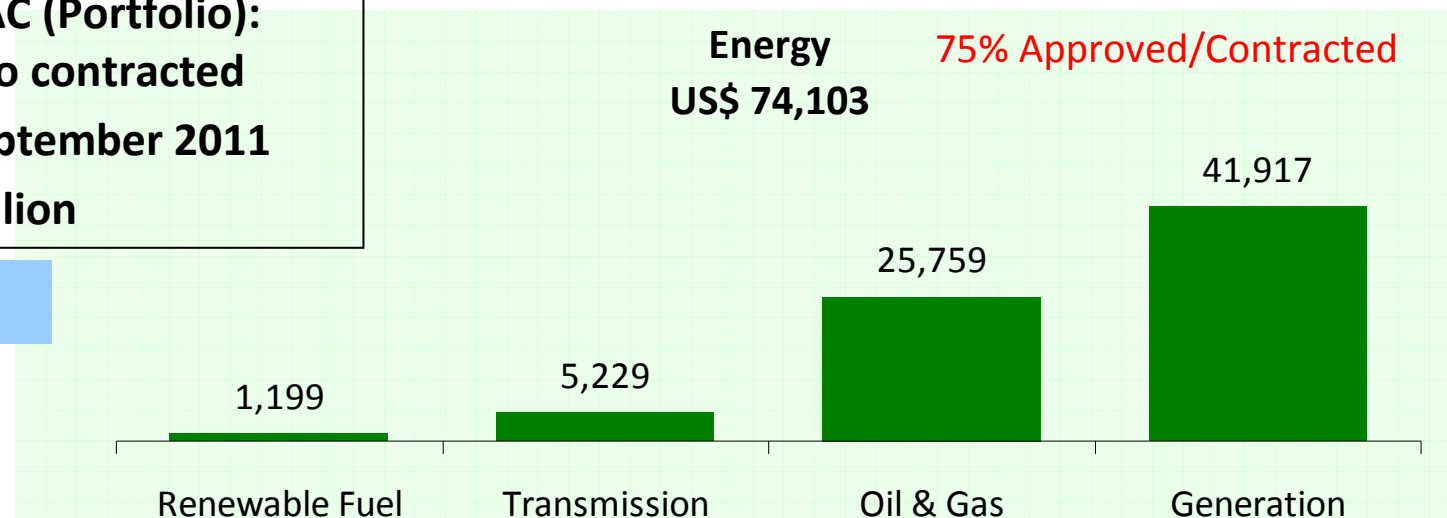
The BNDES' participation in infrastructure credit

Outstanding achievements...



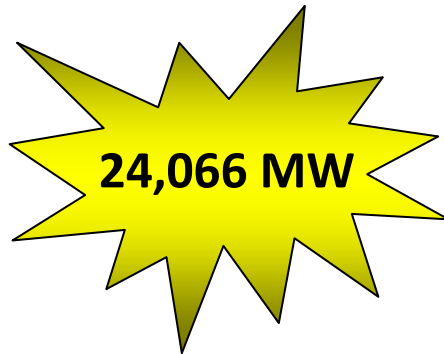
BNDES role in PAC (Portfolio):
Consultations to contracted
Projects up to September 2011
US\$ million

448 projects



Hydroelectric Projects

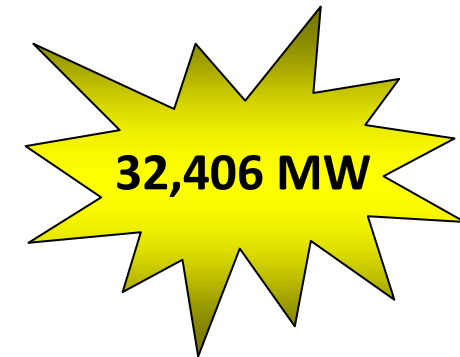
2010-2013



Highlight:
Santo Antônio & Jirau
US\$ 13.4 billion

Between 2011 and
2014 **US\$ 79
billion** will be
invested in energy

2014-2019



Highlight:
Belo Monte & Tapajós
US\$ 29.2 billion

Diversification: Between 2010 and 2013, **new renewable sources** will increase the potential to generate energy by **6,807 MW**.

Biomass and **wind parks** projects stand out

Infrastructure projects that stand apart in 2011 - 2014



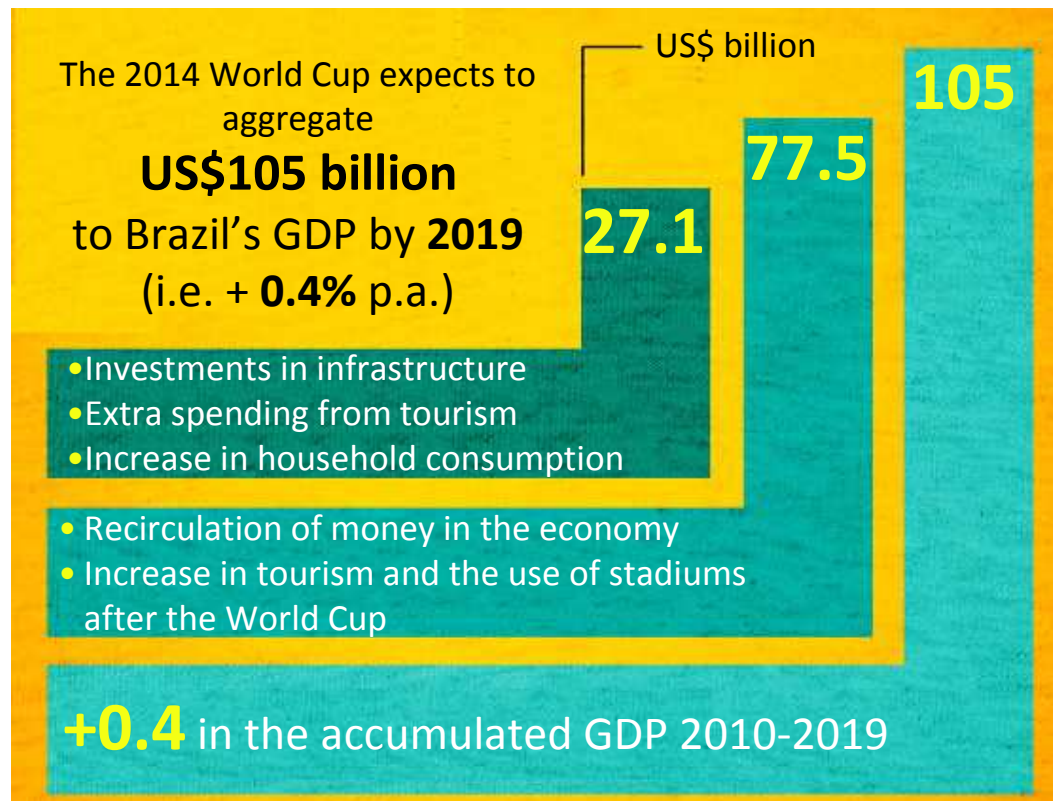
Forecast investment amounts

- ✓ **Hydroelectric plants on Madeira River** – US\$ 13.4 billion
- ✓ **Angra III nuclear plant** – US\$ 6 billion
- ✓ **Belo Monte hydroelectric plant** – US\$ 14.9 billion
- ✓ **Tapajós hydroelectric complex** – US\$ 14.3 billion
- ✓ **Wind energy projects** – US\$ 4.6 billion



US\$/R\$ = 1.75

Large-scale events require heavy investment



**US\$ 7.2 billion in direct
investments to hold the
Olympic Games**

Challenges for the infrastructure sector



- ✓ Electric Energy;
- ✓ Airports;
- ✓ Urban Mobility;
- ✓ 2014 World Cup;
- ✓ 2016 Olympic Games.

PAC 2 Projects (US\$ bn)	2011 - 2014	After 2014	Total
PAC Better City	32.6	-	32.6
PAC Citizens' Community	13.1	-	13.1
PAC My House, My Life	159.0	-	159.0
PAC Water & Electricity for all	17.5	-	17.5
PAC Transport	59.7	2.6	62.3
PAC Energy	263.8	358.2	622.0
Total	545.7	360.8	906.5

US\$/R\$ = 1.75

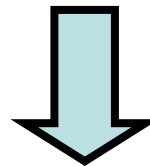


Complexity of infrastructure projects require long term planning and commitment

Brazilian demand for infrastructure will be rising over the next 10 years

Complex projects require complex solutions

Long-term projects requires sophisticated institutional and financial engineering and partnerships with the private sector



Development Banks like the BNDES have been and will be of strategic importance, but the private financial industry must step in

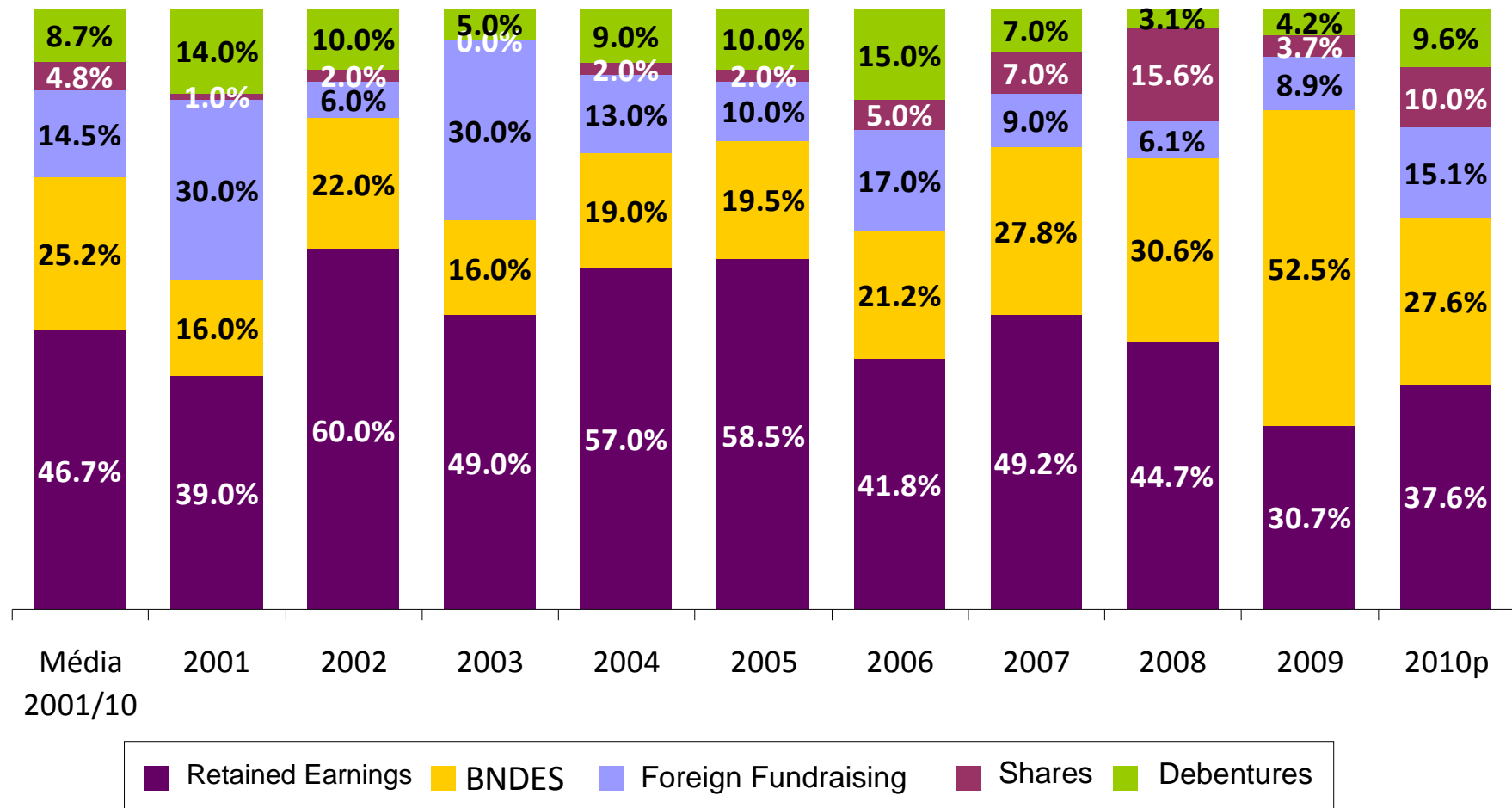
The long term financing industry in Brazil

- ✓ The **Brazilian Financial Industry** is sophisticated but still operating mainly for the **short term**
- ✓ Anbima, Bovespa-BMF and Febraban are fully aware of the **urgent need** to move towards the **long term**
- ✓ Open areas for advances
 - ✓ **Project scouting, development and execution**
 - ✓ **PPPs**
 - ✓ **Insurance and Guarantee**
 - ✓ **Project Finance**
 - ✓ **Equity Funds**

Brazil must grow and diversify its sources of long-term financing



Sources of long-term financing for industry and infrastructure

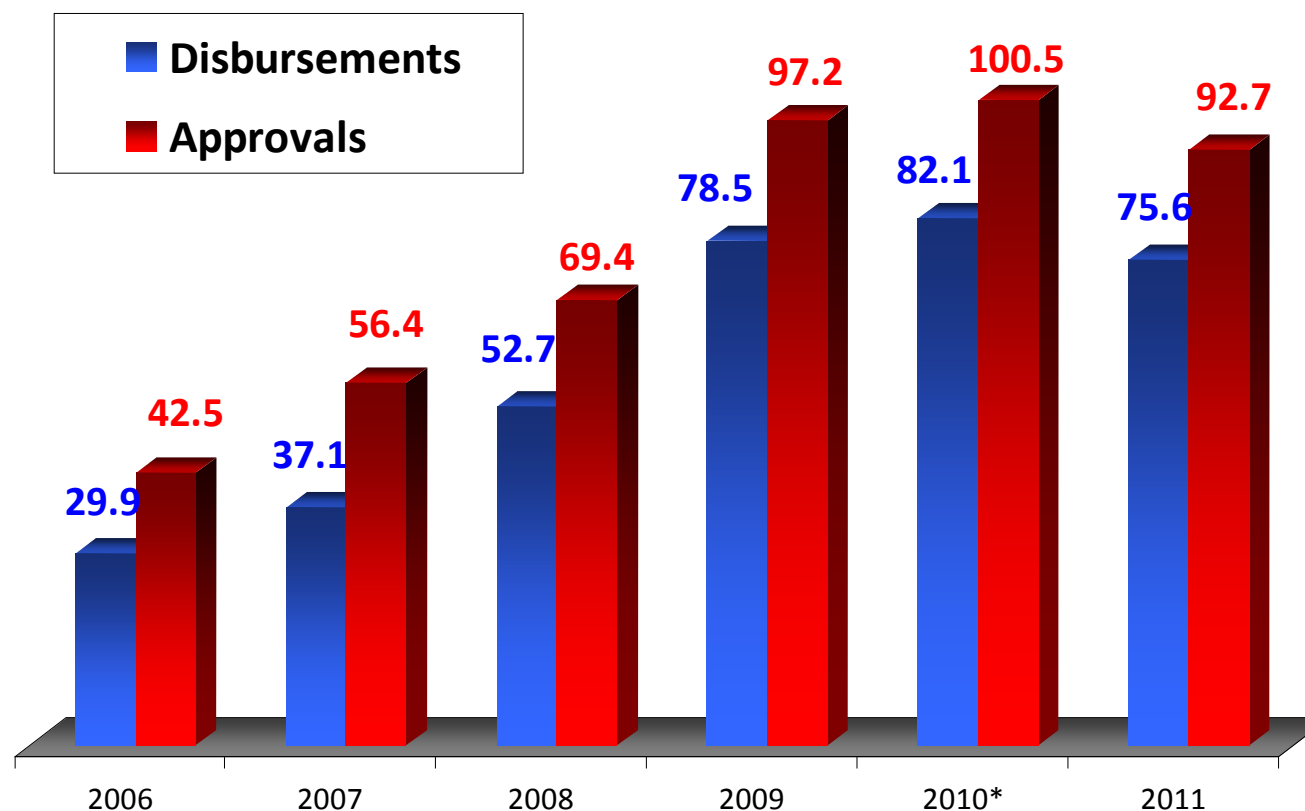


Long term financing: strong reliance on BNDES



The BNDES' Disbursements and Approvals

*Data accumulated over the last 12 months up to September 2011 (US\$ bn)



BNDES holds 2/3 of Brazilian credit stock over 5 years

Recent and upcoming policies are and will be aiming at private sector “crowding in”



Tax incentives for primary issuance and secondary trading of corporate debt instruments:

- ✓ Tax advantages applied to debentures issued by SPEs in connection with specific infrastructure projects;
- ✓ Exemption of banking reserves requirements within the Brazilian Central Bank for the latest long-term debt instrument “Letras Financeiras” (Financial notes);
- ✓ Announcement of the creation of a large Liquidity Fund for corporate securities; and others.

BNDES is engaged in this endeavour:

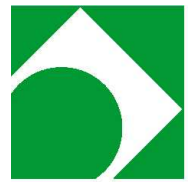
- ✓ Acquisition of debentures in primary issuance offers and subsequent secondary market trading;
- ✓ Complementary participation in the Liquidity Fund for Corporate Securities;
- ✓ BNDES will also lend the securities in its portfolio to financial institutions in the role of market-makers;
- ✓ Changes in its operating policies.

In a context of worldwide economic slowdown, investments in infrastructure is of strategic importance for maintaining Brazil growth trajectory

Success will depend on public and private sectors converging decisions and actions towards the full development of a strong long term financing industry in Brazil

Long-term Goals

- ✓ **Generating jobs and reducing social and regional inequalities;**
- ✓ **Innovation and an increase in industrial competitiveness;**
- ✓ **Investments with socio-environmental sustainability;**
- ✓ **Increase in domestic savings and the creation of alternatives for long-term financing.**



BNDES

*Brazilian
development bank*

